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TO RUEHC/SECSTATE WASHDC 5300  
INFO RUEHRL/AMEMBASSY BERLIN 0642  
RUEHFR/AMEMBASSY PARIS 1507  
RUEHRO/AMEMBASSY ROME 2406  
RUEHBU/AMEMBASSY BUENOS AIRES 0391  
RUEATRS/DEPT OF TREASURY WASHDC  
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SUBJECT: SPANISH INVESTMENT DISPUTES IN ARGENTINA

REF: STATE 88697

¶1. (U) On September 3, Econoff raised the issue of investment in Argentina with Alejandro Alvargonzalez San Martin, MFA Deputy Director General for Bilateral Economic Relations with Developing Countries. Alvargonzalez noted that the stock of Spanish investment in Argentina amounts to approximately 35 billion euros, making Spain the country's largest foreign investor, and that Spanish companies are experiencing problems similar to those described in reftel. In particular, firms involved in Argentina's electricity and oil and gas sectors, e.g., Endesa and Repsol, as well as some in highway administration, were adversely affected by the freezing of tariffs during the 2001 economic crisis and suffered considerable losses.

¶2. (SBU) Some of these companies, Alvargonzalez stated, had brought cases before ICSID, but later withdrew them as the GOS, seeking to avoid tensions, pursued a policy of negotiating with the GOA on a case-by-case basis, an approach which has yielded positive results in some cases, but which he acknowledged is a very slow and often frustrating process. Alvargonzalez had no views on the interpretation of Articles 53 and 54 of the ICSID Convention but found it unsurprising that the GOA was failing to comply with its obligations, as many Spanish investors are still encountering problems and are, in his view, likely to continue to do so. He cited a recent Bank of Spain report that listed Argentina as a high-risk country for foreign investors, and President Fernandez de Kirchner's rejoinder that the Bank should focus on its own problems, as illustrative of the strained bilateral investment relations. He also mentioned the Aerolineas Argentinas situation, in which the Spanish controlling shareholder, Marsans, was pressured to sell its stake back to the GOA. Alvargonzalez added that some Spanish investors were able to reduce their risks, or improve their chances of favorable treatment from the government, by taking on local partners, as in the case of Repsol YPF.

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